

# OFFICIAL COPY

1 STAFF CONFERENCE

MONDAY, JANUARY 10, 2011

2  
3 CHAIRMAN FINLEY: Let's come to order, please.

4 In compliance with the requirements of Chapter 138(a) of  
5 the State Government Ethics Act, I remind all members of  
6 the Commission of their duty to avoid conflicts of  
7 interest and inquire whether any member of the Commission  
8 has a conflict with respect to the matters we have coming  
9 before us at this time?

10 (No response.)

11 We have 3 brief items on our agenda. We have  
12 some news by Progress Energy and Duke Energy that has  
13 broken over the weekend, and we have asked representatives  
14 of those companies if they would come down this morning in  
15 our agenda meeting, and brief us to the extent they are  
16 able, to what their plans are. At this time we will  
17 preempt our regularly scheduled agenda items and hear from  
18 Progress and/or Duke.

19 Tell us who you are for the record.

20 JOHN MCARTHUR: I'm John McArthur. I'm  
21 currently the general counsel at Progress Energy. And  
22 Brett Carter, President of Duke Energy Carolinas is here  
23 and Lloyd Yates, President of Progress Energy Carolinas,  
24 is here with me this morning.

1           What Len is handing out to you is the slide deck  
2 or presentation that Jim Rogers and Bill Johnson are  
3 delivering in a webcast to investors as we speak. So you  
4 are getting this realtime as the rest of the universe is.  
5 What I'd like to do is to go through some of these slides,  
6 not all of them, and try to focus on the things we think  
7 you would be most interested in in this proposed  
8 transaction.

9           I will proceed to Page 7 which is really an  
10 overview. And the proposed strategic combination of  
11 Progress Energy and Duke Energy would create the largest  
12 US utility headquartered here in North Carolina. As you  
13 see on that page, it's about an 85% regulated energy mix,  
14 15% unregulated. And it does position the company to be  
15 in a leadership position in the national level on policy  
16 issues.

17           If you turn to Page 8, the next page there, this  
18 has some of the highlights of the drivers for the  
19 transaction. I am going to focus on the customer benefits  
20 here and come back to those -- this is a stock-for-stock  
21 transaction. And the drivers here in terms of the  
22 customer side in normal situations like this operational  
23 efficiencies, we have studied that and there will be  
24 operational efficiencies from this proposed transaction.

1 But unique here are significant benefits to Carolina's  
2 customers from joint dispatch. These would produce fuel  
3 savings to customers. And I'm going to come back to that  
4 and discuss it in a little more detail.

5 As you will see in a little bit the proposed  
6 transaction involves members of both of the management  
7 teams in terms of going forward, and I will discuss that a  
8 little bit.

9 Page 9 gives you an overview of financials, and  
10 it really just describes for you the size and scope of  
11 what the combination would be in terms of market cap,  
12 customers over 7 million, customers total generation  
13 capacity there and rate base. I won't go into details,  
14 but that does give you an overview of the size.

15 The next page, I do want to discuss a little bit  
16 of the key transaction terms for you so you will have  
17 that. The new entity will be known as Duke Energy  
18 Corporation. The premium paid to Progress' shares in the  
19 transaction is about 7% depending on how you calculate it.  
20 But it's in that range. The corporate headquarters will  
21 be in Charlotte with a significant presence remaining in  
22 Raleigh. Today we are not able to specify what that is,  
23 but during the transition we'll be able to give more  
24 details on exactly what operations will remain here in

1 Raleigh. Significantly, I think for you is there's no  
2 change in the utilities in terms of legal entities. So  
3 the proposal is that Duke Energy Carolinas and Progress  
4 Energy Carolinas would remain as legal entities for  
5 regulatory purposes and before you going forward.

6 You see the break out there in terms of  
7 ownership 63%, Duke Energy shareholder and 37 for  
8 Progress? Jim Rogers would take the role of Executive  
9 Chairman, and Bill Johnson will be the President and CEO  
10 with responsibilities to operate and run the corporation.  
11 And then you see you see the board composition there: 11  
12 from Duke, 7 from Progress. That's really the overall key  
13 transaction. Is there any questions on this overview  
14 part?

15 CHAIRMAN FINLEY: So you would maintain the  
16 separate operating companies of Progress and Duke in North  
17 Carolina on a forward-going basis. Does that mean  
18 indefinitely or do envision at some point merging the two  
19 companies to obtain economies of scale and perhaps divide  
20 the rate structure across the state?

21 JOHN MCARTHUR: Mr. Chairman, there have been no  
22 plans to combine currently. So on a going-forward basis  
23 we would intend to operate them separately. As you know  
24 there is rate disparities between two particularly for the

1 industrial customers, and that would be an issue. I would  
2 say the companies are open to down the road if it makes  
3 sense we would come to the Commission and address that  
4 issue. But for this transaction and for the going-forward  
5 basis, the plan is to operate separately.

6 Okay, the next page -- these next two pages, we  
7 are going to look at both of these together. It really  
8 provides the transaction rational for the two corporations  
9 and the two shareholder basis. I'm going to focus on the  
10 significant customer benefits there in the bottom and  
11 discuss the fuel and dispatch savings for the Carolina  
12 customers.

13 We obviously studied this, and these are fuel  
14 savings that would be derived mainly for two basis: One  
15 is jointly dispatching the combined generation fleet. So  
16 we would dispatch the most efficient units first, and this  
17 would generate overall fuel savings. And the studies that  
18 we've done in general similar to Duke's units would  
19 dispatch before Progress Energy Carolina's units. So  
20 there would be an issue of how do you equalize these fuel  
21 savings? And our proposal would be we would work with the  
22 Public Staff, and try to come to you with a proposal to  
23 try to equalize these fuel savings between the two legal  
24 entities and two utilities. But overall our studies show

1 joint dispatch savings in the neighborhood of 6 to 800  
2 million in the first 5 years. So a fairly significant  
3 savings there.

4 The other source of savings in addition to  
5 really dispatching efficient units is fuel procurement  
6 savings. Obviously, with the larger entity you are able  
7 to leverage that going forward so as current fuel  
8 contracts roll off, we would be leveraging the larger size  
9 to -- in terms of pricing of coal and gas. So those are  
10 the two main drivers for the fuel savings that we describe  
11 here. That's obviously an important part of this  
12 transaction and an important driver for customers. I'd be  
13 happy to discuss that further with you and answer any  
14 questions about that.

15 Operational efficiencies, we have done some  
16 studies on this and benchmark. And what we expect is we  
17 looked at other transactions that are sort of similar, and  
18 the range is somewhere between 5 and 7% or so of nonfuel  
19 O&M per year. We expect this transaction to fall in that  
20 range. And our proposal will be that those savings would  
21 flow to the customers in the normal course through rate  
22 proceedings that the two rate proceedings the customers  
23 have tentative schedules for.

24 So we are really looking at two strings here in

1 terms of the joint dispatch. Those savings would begin  
2 sort of day one after close and show up in the fuel clause  
3 proceeding for the utilities and the others through a base  
4 rate proceeding.

5 CHAIRMAN FINLEY: Does Progress have any plans  
6 for a base rate case any time soon?

7 JOHN MCARTHUR: Let me turn you to Page 33. I  
8 think this is the best way to answer that. I think as the  
9 Commission is aware, Progress is in the process of putting  
10 in place new combined cycle units and doing coal-to-gas  
11 repowering strategy which involves as you see here our  
12 Richmond County combined cycle unit scheduled to come  
13 online in June. And in addition to our Lee proposed unit  
14 in Sutton in 2013 and 2014. So these capital investments  
15 are going to require a rate case at the appropriate time.  
16 We are looking in that 12 to 13 timeframe. We don't have  
17 a specific time yet. But we do know that this capital  
18 investment program will require a rate case in the near  
19 future.

20 If you turn one page back, we have a similar  
21 description for Duke Energy, and I think you are familiar  
22 with this, the Cliffside and Buck and Dan units coal and  
23 gas, they are scheduled to prorate case in 2011 and 2012.  
24 So both companies will be before you for general rate

1 cases in the near future.

2 Other questions on that?

3 COMMISSIONER BROWN-BLAND: Good morning, Mr.  
4 McArthur, am I understanding that with regard to the  
5 Progress piece of it that you are looking at potential  
6 test year 2012?

7 JOHN MCARTHUR: Again, we haven't pinned down  
8 the exact date, but current forecast that it's in that  
9 range.

10 COMMISSIONER BROWN-BLAND: Thank you.

11 JOHN MCARTHUR: A couple of other slides I did  
12 want to cover this morning on Page 13, there it does give  
13 you the description of management team. I want to go  
14 through this briefly. This is a combined management team:  
15 Chief Financial Officer and General Counsel are current  
16 Duke positions are Lynn Good and Mark Manly; Mark Mulhern  
17 from Progress will be Chief Administrative Officer;  
18 Jennifer Weber currently Chief Human Resources Officer at  
19 Duke would in that position in the new combined entity;  
20 Dhiaa Jamil would run the Nuclear Fleet; Jeff Lyash from  
21 Progress on other generation non-nuclear; I would have the  
22 Regulated Utilities and the utilities presidents would  
23 report to me; Keith Trent at Duke would continue to  
24 operate their Commercial Businesses, non-regulated units;



1 and Lloyd Yates would have the transmission distribution  
2 and customer business. So this is the management team  
3 that is being announced today. And then during the  
4 transition obviously would be making other additional  
5 announcements as it goes forward. Up in the box there on  
6 the left in terms of integration A.R. Mullinax at Duke and  
7 Paula Sims from Progress will be the transition effort.  
8 They both have deep experience, and they are both involved  
9 in our transition from previous transactions. So we feel  
10 pretty good about the experience we have there.

11 Questions about this management team?

12 (No response.)

13 I did have a slide here on Regulatory Approval  
14 which is 14. You see over in the box there we will be  
15 filing in the first quarter North and South Carolina U.S.  
16 DOJ, FERC, and NRC. I would touch base a little bit on  
17 the preferred filing. Obviously, this is focused on  
18 market power and the wholesale markets. We've obviously  
19 studied this, and we do intend to file studies that would  
20 show no divestiture required. But we do expect to have a  
21 filing that would propose what we would call a "clean  
22 approval" at FERC.

23 CHAIRMAN FINLEY: And the risk of divestiture,  
24 could you go into that a little bit? Why are you

1 proactively addressing that before FERC.

2 JOHN MCARTHUR: Well obviously one of the  
3 benefits that we've described is joint dispatch and using  
4 the generation fleets in the Carolinas in an efficient  
5 way. We certainly would want to avoid any federal  
6 requirements that require baseload divestitures as part of  
7 their regulatory approval. And, again, we have studied  
8 this carefully and we are confident that under FERC's  
9 precedence and their rules, we will be filing a proper  
10 study and a proposal that would lead to the conclusion  
11 that no divestiture is required under their precedence.

12 CHAIRMAN FINLEY: I take it that another  
13 combination there have been requirements by FERC there be  
14 baseload divestitures. Can you give us some examples what  
15 might have caused that in other situations?

16 JOHN MCARTHUR: Again, Mr. Chairman, I'm not  
17 going to be able to give you specifics, but in terms of  
18 applying their test, they look at the wholesale market and  
19 whether the combined entity can exercise basically undue  
20 market power to basically control prices. The facts in  
21 the Carolinas today are that Progress Energy Carolinas and  
22 Duke Energy Carolinas do not compete significantly for  
23 wholesale customers. It's a very very small market. In  
24 fact, PEC is the net buyer in the wholesale market today.

1 So that is one of the reasons we feel pretty confident in  
2 this area; but no guarantees.

3 CHAIRMAN FINLEY: I've had some experience with  
4 your wholesale competition in the past, so I'm familiar  
5 with that.

6 JOHN MCARTHUR: I understand.

7 I only want to make a couple other points. The  
8 slide deck is designed mainly for the investor community,  
9 and Bill and Jim will be going through it in a little more  
10 detail. But I did want to touch base on the combined  
11 operations and generation capacity and that sort of thing.  
12 So if you turn to Page 17, this just gives you the picture  
13 of how it rolls up a little bit, and how the Carolinas  
14 fits into it. This just give you the geographic  
15 footprint. And in terms of the 7.1 regulated customers  
16 there, over half of those would be in Carolinas similar to  
17 the rate base. So it gives you an idea of the different  
18 allocations for the different regulated utilities.

19 And the same for the U.S. generation on Page 18  
20 there. Currently Duke is a little more coal dependent  
21 than Progress Energy. The combined unit, they're fairly  
22 diversified and balanced generation portfolio.

23 The next page, and I know you are familiar with,  
24 but what we are both trying to do in terms of meeting EPA

1 regulations around coal, we both are doing some  
2 conversions and retiring of old coal units. And this just  
3 shows you the roll up there of 3400 megawatts total for  
4 both until we have announced retirements. And that leaves  
5 us 3200 on a combined basis of unscrubbed coal units. So  
6 we are making good progress on that. This would be one of  
7 the areas where combined entity would continue to focus in  
8 terms of its fleet modernization efforts.

9 And the last line I intend to cover is really  
10 just touching on the nuclear generation overview. So the  
11 combination would create the largest regulated nuclear  
12 fleet in the country; 7 stations and 12 units. And you  
13 see the map there, it is geographically focused in the  
14 Carolinas. So one of the advantages in the combination is  
15 operating this nuclear fleet on a combined basis. And  
16 it's fairly unique in terms of geographic compactness  
17 which should help strive for efficiencies.

18 So, Mr. Chairman, that's all I intended to  
19 cover. I'll be happy to answer any other questions that  
20 the Commission has.

21 CHAIRMAN FINLEY: Page 14 you list specifically  
22 regulatory filings, North Carolina, South Carolina, U.S  
23 DOJ, FERC and NRC. What about Florida and Indiana and  
24 Kentucky and Ohio?

1           JOHN MCARTHUR: The statutes don't require  
2 approval in those jurisdictions. We obviously will file  
3 any notices or information or work with the Commission  
4 there any information they would like. But the statutes  
5 don't require approval.

6           CHAIRMAN FINLEY: On this page you suggest that  
7 you hope to close the transaction by the fourth quarter of  
8 2011.

9           JOHN MCARTHUR: Yes, sir.

10          CHAIRMAN FINLEY: I think Robert Gruber perked  
11 up his ears.

12          JOHN MCARTHUR: We know how these things go. We  
13 are committed to doing this in an open transparent way.  
14 We will provide the Public Staff any interveners and the  
15 Commission all the information they need to make an  
16 informed decision. Obviously, we expect as a transaction  
17 this size the U.S. DOJ will look at it pretty carefully  
18 and provide them what they need as well.

19          MR. BENNINK: John, do you have a better  
20 estimate as to when you'll be making the filing in North  
21 Carolina rather than the first quarter?

22          JOHN MCARTHUR: As soon as -- there are  
23 requirements in term of obviously what we file with the  
24 notice. And Mr. Anthony and I have not set a date. We

1 will sit down with our colleagues at Duke and try to  
2 decide when to do that. As soon as possible is the  
3 answer. And right now sitting here today I'm just not  
4 able to give you a better answer than that.

5 COMMISSIONER RABON: I'm not sure if you're able  
6 to give as much information on this at this time but I  
7 thought I would ask: Do we have any indications about  
8 implications as to jobs in North Carolina?

9 JOHN MCARTHUR: What we are saying is that we  
10 understand there may be job impacts. We are not giving  
11 any estimates. We are also committing to try to do this  
12 in a way through attrition, retirements and that sort of  
13 this to minimize lay offs at both utilities. This is an  
14 issue that we will work carefully and thoughtfully through  
15 the transition. We are trying not to commit in terms of  
16 regulatory filings that might require certain lay offs at  
17 certain times. So I would add that to my answer.

18 COMMISSIONER RABON: Have you got a weather  
19 report for us today?

20 JOHN MCARTHUR: I think Mr. Yates and I talked  
21 about this and early afternoon things are going to start  
22 happening here. It's pretty heavy in Charlotte. It's  
23 pretty heavy in South Carolina and it's heading this way.  
24 So about 1:00 things will get pretty exciting here I

1 think.

2 CHAIRMAN FINLEY: Well, this is big news, big  
3 day for Progress and Duke. The Commission and Public  
4 Staff and others appreciate you taking the time to come  
5 down and briefing us on it. We will tuned, I'm sure here  
6 more from you.

7 JOHN MCARTHUR: Thank you for having us, and I  
8 will come back whenever you want us to.

9 CHAIRMAN FINLEY: We will now move to our agenda  
10 items. Public Staff, Transportation.

11 MS. STAHL: Good morning, Carol Stahl,  
12 Transportation Rates Division. Item P1 is Docket 825, Sub  
13 346, Request by All American Relocation, Inc., for an  
14 Increase in Fuel Surcharge.

15 On January 4, 2011, All American Relocation  
16 filed a letter requesting an increase in the fuel  
17 surcharge from a \$1.05 per bill of lading mile to \$1.13  
18 per bill of lading mile. The request was made pursuant to  
19 and in compliance with Appendix A of the Commission's  
20 January 18, 1991 Order in Docket No. M-100, Sub 121. As  
21 indicated on the agenda item the current composite index  
22 price of fuel is \$3.264 as of January 3, 2011, which would  
23 support a fuel surcharge of \$1.13 per bill of lading mile.

24 Recommendation of the Public Staff is that the

1 Commission issue an Order increasing the fuel surcharge to  
2 \$1.13 per bill of lading mile.

3 CHAIRMAN FINLEY: Questions?

4 (No response.)

5 Motion carries.

6 (WHEREUPON, MOTION MADE AND PASSED TO ADOPT  
7 THE RECOMMENDATION.)

8 MR. CARPENTER: Good morning, my name is Nat  
9 Carpenter. I am with the Electric Division. Item P1  
10 concerns Duke Energy Carolinas LLC's request for approval  
11 under G.S. 62-140 of a one-year test of the effectiveness  
12 of two technologies in assisting customers in reducing  
13 their energy consumption. The two technologies to be  
14 tested include Middleware and Fault Detection and  
15 Diagnostics. The two technologies will be installed on  
16 the customer's side of the meter in two buildings that are  
17 participating in the Smart Energy Now pilot in Charlotte.  
18 Together the two technologies are expected to enable  
19 better control of building systems, such as heating,  
20 venting and air conditioning and lighting.

21 Duke's contribution toward the test will include  
22 the labor costs for installation of the Middleware,  
23 diagnostic services, and the evaluation of the test  
24 results. Duke will file a report of its findings within



1 three months from the conclusion of the test.

2 Our recommendation is that the Proposed Order  
3 approving the test be issued by the Commission.

4 CHAIRMAN FINLEY: In the first paragraph there  
5 you indicate there that this expenditure will -- purpose  
6 of expenditure will be to reduce energy consumption. And  
7 in the last paragraph you have a sentence that says, Duke  
8 plans to recover these costs through base rates. Our  
9 question would be: Why recover those rates through base  
10 rates as opposed to the energy efficiency and demand side  
11 management rider?

12 MR. CARPENTER: This is so small as to be  
13 probably not worth the trouble of going through a rider  
14 calculation test. It is a test in that they are looking  
15 toward a more expansive application of these technologies  
16 if they turn out to be worth while. In that they would  
17 anticipate would be under a rider situation.

18 CHAIRMAN FINLEY: As far as a test is concerned  
19 all we are talking about is the cost of tests with no  
20 incentives?

21 MR. CARPENTER: Right. There are incentives,  
22 but they're not attributed by Duke Energy. They are  
23 attributed by Cisco and someone else.

24 CHAIRMAN FINLEY: And those are incentives Duke

1 would offer somebody else and Duke is not inferring  
2 incentives as energy efficiency program for these --

3 MR. CARPENTER: That's true, yes.

4 CHAIRMAN FINLEY: Any further questions?

5 (No response.)

6 Motion carries.

7 (WHEREUPON, MOTION MADE AND PASSED TO ADOPT  
8 THE RECOMMENDATION.)

9 MS. MCKEMIE: Babette McKemie, Water Division.  
10 Item P1 Docket No. W-1120, Sub 6 is an Application by  
11 Conleys Creek Limited Partnership for a Tariff Revision.

12 On October 27, 2010, Conleys Creek Limited  
13 Partnership, filed a letter with the Commission seeking  
14 Authority to Amend its Tariff for the purpose of requiring  
15 that seasonal residents who disconnect and later reconnect  
16 water service either be prohibited from disconnecting  
17 service or be required to pay a reconnection charge  
18 commensurate with the loss of water revenue during average  
19 length of disconnected service. The Applicant seeks to  
20 limit future financial revenue loss caused by the seasonal  
21 disconnection of service.

22 The Public Staff has reviewed the Applicant's  
23 request and recommends it be granted with the following  
24 modifications: The tariff amendment apply to both water

1 and sewer service; the tariff amendment provide for  
2 payment upon reconnection of the entire flat rate and/or  
3 base charge during the period of disconnection; the tariff  
4 amendment apply only on a prospective basis so that  
5 existing residents who currently are disconnected will not  
6 be affected; and customers receive notice of the tariff  
7 amendment in the next billing cycle.

8           The Public Staff recommends that the tariff be  
9 revised as shown below to add the following language:  
10 When water and/or sewer service is disconnected and  
11 reconnected at the request of the same owner for the same  
12 unit within a period of less than 12 months, the entire  
13 flat rate and/or base charge for the period of  
14 disconnection will be due and payable before the service  
15 will be reconnected. And this will apply to  
16 disconnections only occurring after this Order.

17           The Applicant consents to the Public Staff's  
18 recommendations. Public Staff recommends that a Proposed  
19 Order be issued approving this tariff revision.

20           CHAIRMAN FINLEY: Questions or discussion?

21                   (No response.)

22           Motion carries.

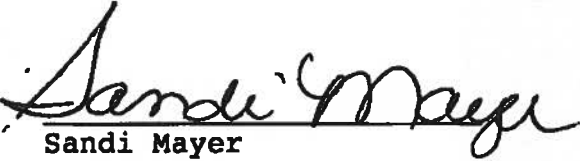
23                   (WHEREUPON, MOTION MADE AND PASSED TO ADOPT  
24                   THE RECOMMENDATION.)

1                   Minutes of January 3, 2011 are approved and we  
2                   are adjourned.

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4                   Whereupon, the hearing was adjourned.  
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CERTIFICATE

The undersigned Court Reporter certifies that this is the transcription of notes taken by her during this proceeding and that the same is true, accurate and correct.

  
Sandi Mayer  
Court Reporter II

**FILED**  
**JAN 18 2011**  
Clerks Office  
N.C. Utilities Commission